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Enabling poor rural people
to overcome poverty

President's report

Proposed loan and grant to the Republic of Armenia for the

Rural Asset Creation Programme

Note to Executive Board representatives

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For: Approval

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Abbreviations and acronyms

PAAU	Programme Analysis and Administration Unit
USAID	United States Agency for International Development

Republic of Armenia
Rural Asset Creation Programme



Map of the programme area

Source: IFAD.

The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.

Republic of Armenia

Rural Asset Creation Programme

Financing summary

Initiating institution:	IFAD
Borrower:	Republic of Armenia
Executing agency:	Office of the Prime Minister
Total programme cost:	US\$52.35 million
Amount of IFAD loan:	SDR 8.9 million (equivalent to approximately US\$13.48 million)
Amount of IFAD grant:	SDR 0.33 million (equivalent to approximately US\$0.50 million)
Terms of IFAD loan:	Hardened terms (20 years, including a grace period of 10 years, with an interest rate of 0.75 per cent), subject to Executive Board approval of document EB 2010/100/R.10
Cofinancier(s):	OPEC Fund for International Development (OFID) United States Agency for International Development (USAID) Other cofinancier (to be determined)
Amount of cofinancing:	OFID: US\$20 million USAID: US\$2 million Other cofinancier: US\$2.30 million
Terms of cofinancing:	OFID: to be determined USAID: grant
Contribution of borrower:	US\$11.02 million
Contribution of beneficiaries:	US\$3.05 million
Appraising institution:	IFAD
Cooperating institution:	Directly supervised by IFAD

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed financing to the Republic of Armenia for the Rural Asset Creation Programme, as contained in paragraph 37.

Proposed loan and grant to the Republic of Armenia for the Rural Asset Creation Programme

I. The programme

A. Main development opportunity addressed by the programme

1. The rationale for the Rural Asset Creation Programme flows from the recognition that further reductions in rural poverty and regional socio-economic disparities in Armenia must be set in the context of predominantly smallholder production and, secondly, must address the constraints of highly limited and low-paid rural employment opportunities. Central to addressing these issues successfully will be the creation of linkages for rural producers, processors and traders to existing and emerging high-value markets, both domestic and for export. To this end, production and productivity gains will be achieved for agricultural products, in terms of quality, quantity, consistency and market competitiveness, using modern technology.

B. Proposed financing

Terms and conditions

2. It is proposed that IFAD provide to Republic of Armenia a loan in the amount of SDR 8.9 million (equivalent to approximately US\$13.48 million), on hardened terms, subject to Executive Board approval of document EB 2010/100/R.10, and a grant in the amount of SDR 0.33 million (equivalent to approximately US\$0.50 million) to help finance the Rural Asset Creation Programme. The loan will have a term of 20 years, including a grace period of 10 years, with an interest rate of 0.75 per cent.

Relationship to the IFAD performance-based allocation system (PBAS)

3. The allocation defined for the Republic of Armenia under the PBAS is US\$13.97 million over the 2010-2012 allocation cycle.

Relationship to national medium-term expenditure framework criteria

4. Like all IFAD-financed programmes, the programme is fully integrated into the Government's medium-term programme.

Relationship to national sector-wide approaches or other joint funding instruments

5. The programme is fully compliant with Armenia's Sustainable Development Programme and the 2006 Agricultural Sustainable Development Strategy.

Country debt burden and absorptive capacity of the State

6. Armenia's debt is expected to remain stable over the medium term. Despite substantial external financing in 2008-2010 and an exchange rate depreciation, the concessionality of official inflows limits the risk that the debt level will become unsustainable. Macroeconomic management is under control and annual growth rates, prior to the financial crisis in 2009, were above 5 per cent. Repayment of IFAD loans to Armenia has always been on schedule.

Flow of funds

7. Proceeds of the IFAD loan and grant will be channelled through a standard financing arrangement between IFAD and the Government. An account will be opened by the Ministry of Finance for the IFAD share of expenditures.

Supervision arrangements

8. IFAD will administer the loan and grant, supervise the programme and provide implementation support as required.

Exceptions to IFAD General Conditions for Agricultural Development Financing and operational policies

9. No exceptions are foreseen.

Governance

10. The following planned measures are intended to enhance the governance aspects of the IFAD financing: (i) annual audits of programme accounts and financial statements in accordance with international standards; (ii) frequent supervision and implementation support; (iii) covenants in the financing agreement concerning the operation and maintenance of programme-financed infrastructure; and (iv) a performance contract satisfactory to the Fund, to be signed between the Government of Armenia and the joint stock company to be established under the programme, setting forth the obligations of each.

C. Target group and participation**Target group**

11. In line with the IFAD Policy on Targeting, the programme will target poor producers engaged in the fruit and nuts value chains – women and men in the poorest part of the country who have both an interest in moving towards more commercial market-oriented production and a willingness to do so.

Targeting approach

12. The programme will use three targeting approaches: (i) geographical targeting based on poverty and agro-ecological considerations, since fruit and nut production in Armenia occurs at relatively high altitudes where there are concentrations of poor people due to harsh agro-ecological conditions; (ii) self-targeting for on-farm and infrastructure investments based on demand and financial limits; and (iii) direct targeting based on the availability of assets among the target group. Programme targeting and benefits delivery will systematically take gender considerations into account in terms of established thresholds for women's participation.

Participation

13. The programme is based on participatory and systematic identification of investment opportunities in the poorest part of the country, prioritized with respect to their potential impact on poverty, returns to investment and employment generation. The two operational components (see below) and activities supported by the programme require active participation by beneficiaries in terms of initiatives and contributions.

D. Development objectives**Key programme objectives**

14. The overall goal of the programme is to reduce rural poverty in Armenia. Its objectives are: (i) to establish an economically viable fruits and nuts sector with backwards linkages to poor rural smallholders; (ii) to establish a fully privatized entity to deliver services to the fruits and nuts sector (Fruit Armenia); and (iii) to remove infrastructure bottlenecks that inhibit increasing participation by the economically active rural poor in enhanced commercialization of the rural economy.

Policy and institutional objectives

15. IFAD's policy dialogue in Armenia seeks to ensure a focus on opportunities for pro-poor growth and development of those rural sectors where there is growth potential in terms of profitability, marketability and documented export opportunities. Within this framework, improving the enabling environment for private-sector development

is an important element of ongoing discussions with the Government and other partners.

IFAD policy and strategy alignment

16. The latest IFAD country strategic opportunities paper for Armenia notes that, while continuing to focus on the most disadvantaged rural areas, IFAD should consider making investments in support of production and productivity for primary producers where returns are highest. In addition, the programme is aligned with the IFAD Strategic Framework 2007-2010 in terms of providing access to improved technologies, financial services and enterprise development.

E. Harmonization and alignment

Alignment with national priorities

17. As noted, the programme is fully compliant with the Government's strategies and policies.

Harmonization with development partners

18. The programme is aligned with and complements initiatives supported by: (i) Millennium Challenge Corporation Armenia, in particular its Water-to-Market Activity; (ii) the United States Agency for International Development's (USAID) Financial Sector Deepening Project; (iii) USAID's Armenia Local Government Project; (iv) the World Bank-financed Rural Enterprise and Small-scale Commercial Agriculture Development Project with respect to gasification, community-focused economic development and small farmer market access; and (v) the Asian Development Bank-financed Rural Road Sector Project.

F. Components and expenditure categories

Main components

19. The programme has three components: (i) support for the fruits and nuts sector; (ii) rural infrastructure; and (iii) programme management.

Expenditure categories

20. The following expenditure categories are foreseen: (i) civil works (9.9 per cent); (ii) equipment, goods and vehicles (1.3 per cent); (iii) training, technical assistance and specialist services (4.3 per cent); (iv) Fruit Armenia financing (75.6 per cent); and (v) recurrent costs (8.9 per cent).

G. Management, implementation responsibilities and partnerships

Key implementing partners

21. In view of the multi-sectoral nature of the Rural Asset Creation Programme, the overall responsibility for programme management and implementation will rest with a programme steering committee reporting to the Prime Minister's Office.

Implementation responsibilities

22. The existing successful Programme Analysis and Administration Unit (PAAU) in Armenia will be in charge of day-to-day management and programme start-up. The programme will establish a joint-stock company, Fruit Armenia, as the principal vehicle for delivering programme support to the fruit and nuts value chains. This entity will have a senior management team reporting to a board of directors. Private-sector representatives will hold a majority on the board. At the outset, the Government will have 100 per cent ownership of the share capital. However, one of the key strategies for Fruit Armenia is to diversify the ownership structure as soon as its operations have matured sufficiently to attract external investors, and eliminate public ownership. Organizationally, the company will comprise: (i) a nursery department; (ii) an orchard development department responsible for setting up modern orchards on contracted small farms; and (iii) a produce handling department. As in the case of previous IFAD programmes, the PAAU will be responsible for implementing rural infrastructure.

Role of technical assistance

23. An IFAD grant will finance international technical assistance for four years to support the establishment and operations of Fruit Armenia.

Status of key implementation agreements

24. An action plan to set up Fruit Armenia to be carried out during the first year, has been included in the final design report.

Key financing partners and amounts committed

25. The total programme cost is US\$52.35 million over six years. The sources of financing are as follows: IFAD loan and grant, US\$13.48 million and US\$0.50 million (26.70 per cent); OPEC Fund for International Development, US\$20 million (38.20 per cent); USAID, US\$2 million (3.82 per cent); other cofinancier, US\$2.30 million (4.40 per cent); the Government, US\$11.02 million (21.05 per cent); and beneficiaries, US\$3.05 million (5.83 per cent).

H. Benefits and economic and financial justification**Main categories of benefits generated**

26. The Rural Asset Creation Programme is expected to lead to increased assets and incomes among poor smallholders and small to medium rural entrepreneurs and rural wage labourers. Benefits will derive from: (i) profitably linking poor smallholder producers to the fruits and nuts value chains by ensuring quality control in the establishment and husbandry of modern orchards, using highly productive varieties for which there is increasing domestic and international demand; and (ii) upgrading rural infrastructure, primarily for the benefit of those engaged in agriculture-related activities but also for the economic benefit of non-farm rural economy enterprises and the social benefit of the rural population as a whole.

Economic and financial viability

27. The economic analysis shows an overall programme rate of return of 15 per cent. Comprehensive modelling has been undertaken at various levels starting with Fruit Armenia itself. This exercise shows satisfactory financial returns for the activities supported.

I. Knowledge management, innovation and scaling up**Knowledge management arrangements**

28. The programme will generate knowledge products and learning processes by providing for annual stakeholder review and planning workshops, sector studies, reporting, and monitoring and evaluation. Multi-media publication of the experience gained would make a substantial contribution to the regional and national knowledge base. The programme will also produce a very specific and important knowledge product in the form of the proposed national manual on exporting fresh produce, as a web-based "living document".

Development innovations that the programme will promote

29. The programme's major innovation is the creation of Fruit Armenia as an institutional instrument to achieve pro-poor value chain development in the economic interests of smallholder agriculture. Innovative aspects include: (i) a focused, vertically integrated and enterprise-led approach; (ii) application of a company model to deliver financing for sectoral modernization, for which traditional financing is not available; (iii) application of a contract farming model to carry out a significant technological transfer on very small-scale farms in mountainous areas; and (iv) using a commercial, enterprise-based model to modernize planting material for the entire fruits and nuts sector, to meet the demands of international export markets.

Scaling-up approach

30. Fruit Armenia is an open-ended investment that specifically seeks to attract private investment for expansion and scaling-up. If successful, the model could be applied in other countries as a powerful tool for technology transfer and vertical integration of value chains.

J. Main risks

Main risks and mitigation measures

31. The programme faces two main risks: (i) the standard of Fruit Armenia services in the event of public interference; and (ii) a lack of contract discipline. The planned mitigation measures include: (i) the performance contract between the Government of Armenia and Fruit Armenia, noted in the section on governance above; (ii) a private-sector majority on the Fruit Armenia board from the outset; (iii) provision for the recruitment of high calibre staff to senior positions within the company; and (iv) substantial investment in long-term international technical assistance. Concerning the potential lack of contract discipline, Fruit Armenia will choose carefully worded sanction clauses for farming contracts that could be legally enforced at a reasonable cost to the company.

Environmental classification

32. Pursuant to IFAD's environmental assessment procedures, the programme has been classified as a Category B operation in that it is not likely to have any significant negative environmental impact.

K. Sustainability

33. Factors in the programme design that contribute to sustainability include: (i) a focus on market-responsive agriculture, resulting in sustainable investments; (ii) beneficiary cofinancing requirements to ensure commitment; (iii) emphasis on enabling beneficiaries to profitably access existing and emergent markets and provision of further development assistance in the context of a market economy; and (iv) the in-built provision for the gradual and complete privatization of Fruit Armenia.

II. Legal instruments and authority

34. A programme financing agreement between the Republic of Armenia and IFAD will constitute the legal instrument for extending the proposed financing to the borrower/recipient. A copy of the negotiated financing agreement is attached as an annex.
35. The Republic of Armenia is empowered under its laws to receive financing from IFAD.
36. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Lending Policies and Criteria, provided that document EB 2010/100/R.10 is approved by the Executive Board.

III. Recommendation

37. I recommend that the Executive Board approve the proposed financing in terms of the following resolution:

RESOLVED: that the Fund shall make a loan on hardened terms, as defined in paragraph 2 of this document, to the Republic of Armenia in an amount equivalent to **eight million nine hundred thousand** special drawing rights (SDR **8,900,000**), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

RESOLVED FURTHER: that the Fund shall provide a grant to the Republic of Armenia in an amount equivalent to three hundred and thirty thousand special drawing rights (SDR 330,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze
President

Negotiated financing agreement: "Rural Assets Creation Programme"

(Negotiations concluded on 26 August 2010)

Loan Number: _____

Grant Number: _____

Programme Title: Rural Assets Creation Programme (the "Programme")

The International Fund for Agricultural Development (the "Fund" or "IFAD")

and

the Republic of Armenia (the "Borrower")

(each a "Party" and both of them collectively the "Parties")

hereby agree as follows:

WHEREAS:

- A) The Fund has agreed to provide financing to support the Rural Assets Creation Programme in the Republic of Armenia;
- B) The Borrower intends to obtain from the Organisation of the Petroleum Exporting Countries ("OPEC") Fund for International Development ("OFID") financial assistance approximately in the amount of twenty million United States dollars (USD 20 000 000) to assist on financing the Programme;

NOW THEREFORE, the Parties hereby agree as follows:

Section A

1. The following documents collectively form this Agreement: this document, the Programme Description and Implementation Arrangements (Schedule 1), the Allocation Table (Schedule 2) and the Special Covenants (Schedule 3).
2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, as may be amended from time to time (the "General Conditions") are annexed to this Agreement, and all provisions thereof shall apply to this Agreement. For the purposes of this Agreement the terms defined in the General Conditions shall have the meanings set forth therein.
3. The Fund shall provide a Loan and a Grant to the Borrower (the "Financing"), which the Borrower shall use to implement the Programme in accordance with the terms and conditions of this Agreement.
4. The term Borrower shall be used in this Agreement to refer both to the Borrower of the Loan and to the Recipient of the Grant.

Section B

- 1 (a) The amount of the Loan is eight million nine hundred thousand Special Drawing Rights (SDR 8 900 000).
- 1 (b) The amount of the Grant is three hundred and thirty thousand Special Drawing Rights (SDR 330 000).
- 2 The Loan is granted on hardened terms.
- 3 The Loan Service Payment Currency shall be the US dollar.
- 4 The first day of the applicable Fiscal Year shall be 1st January.
- 5 Payments of principal and service charge shall be payable on each 1st February and 1st August.
- 6 The Programme Analysis and Administration Unit ("PAAU") shall operate three Programme Accounts: (a) a Programme Account for operational expenses ("Operational Programme Account"), a Programme Account for infrastructure expenses ("Infrastructure Programme Account") and a Programme Account for support to the fruits and nuts sector ("Fruit and nuts sector Programme Account"). The PAAU shall also operate two accounts designated to receive funds in advance in USD, one for the Loan and one for the Grant ("Designated Accounts"). The Programme Accounts and Designated Accounts shall be managed by the Director of the PAAU or any other person designated to act on his or her behalf by the Borrower.
- 7 The Borrower shall provide counterpart financing for the Programme in the amount of about USD 3 300 000 for infrastructure in cash contribution, as well as necessary funds to cover taxes, including customs and social payments.

Section C

- 1 The Lead Programme Agency ("LPA") shall be the Prime Minister's Office of the Borrower.
- 2 The following are designated as additional Programme Parties:
 - (a) the PAAU as described in paragraph 6 of Schedule 1 hereto; and
 - (b) Fruit Armenia ("FA") as described in paragraph 7 of Schedule 1 hereto.
- 3 The Programme Completion Date shall be the fifth anniversary of the date of entry into force of this Agreement.

Section D

The Financing will be administered and the Programme supervised by the Fund.

Section E

- 1 The following is designated as an additional ground for suspension of this Agreement: the Borrower has not entered into a Subsidiary Financing Agreement as described in paragraph 7.3 of Schedule 1 by the end of the first Programme Year.

2. (a) The following are designated as additional general conditions precedent to withdrawal:

- (i) the Governmental Decree, confirming PAAU, shall have been issued in accordance with paragraph 6.1 of Schedule 1; and
- (ii) A Programme Steering Committee ("PSC"), as described in paragraph 5 of Schedule 1, shall have been established.
- (iii) The Borrower shall have made a deposit in the Infrastructure Programme Account in an amount equivalent to one million and one hundred thousand US Dollars (USD 1 100 000) to support infrastructure investment under the Programme.

(b) Withdrawals to finance Fruit Armenia under category IV of Schedule 2 hereto shall be limited to USD 300 000 until a Performance Contract, as described in paragraph 7.4 of Schedule 1, has been entered into between the Borrower and FA.

3. This Agreement is subject to ratification by the Borrower, and shall enter into force upon receipt by the Fund of an instrument of ratification in accordance with the Borrower's legislation.

4. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Fund:

The President
International Fund for Agricultural Development
Via Paolo di Dono 44
00142 Rome, Italy

For the Recipient:

Ministry of Finance
1 Melik – Adamyan Str.
Yerevan 0010
Republic of Armenia

This agreement, dated _____, has been prepared in the (English) language in six (6) original copies, three (3) for the Fund and three (3) for the Borrower.

For the Fund

For the Borrower

Schedule 1

Programme Description and Implementation Arrangements

I. Programme Description

1. *Target Population.* The beneficiaries of the Programme shall be poor smallholder women and men and key stakeholders in the fruit and nut value chains as well as the general population of disadvantaged mountain area communities of Armenia.

The Programme Area shall cover the marzes of Shirak, Lori, Tavush, Aragatsotn, Gegharkunik, Vayots Dzor and Syunik ("Programme Area").

2. *Goal.* The overall goal of the Programme is to reduce rural poverty in Armenia.

3. *Objective.* The Programme's objectives are: (i) the establishment of an economically viable fruits and nuts sector with backwards linkages to poor rural smallholders; (ii) the establishment of an entity to be fully privatised for delivery of services to the fruits and nuts sector; and (iii) the removal of infrastructure bottlenecks that inhibit increasing participation of the economically active rural poor in enhanced commercialization of the rural economy.

4. *Components.* The Programme shall consist of three components: (i) Support to Fruits and Nuts Sector; (ii) Rural Infrastructure; and (iii) Programme Management.

4.1. Component 1: Support to Fruits and Nuts Sector. This component seeks to increase poor smallholder assets and incomes in the Programme Area through linking them to the Armenian fruit and nut value chains. This will comprise the establishment of Fruit Armenia (FA) as a Joint Stock Company. FA shall carry out the following functions:

- (a) Maintaining a central nursery, a tissue laboratory, and mother trees for multiplication of root stock and other selected varieties;
- (b) Orchard establishment, contracting farmers in the nuts and fruit sector and training of contract farmers in all aspects of orchard management;
- (c) Maintaining a pack house and processing units for fruits and nuts; and
- (d) Providing support for marketing on domestic and international markets, organizing the logistics of sales, branding and advertising, and post-sales services.

This component shall further improve the overall reputation and visibility of Armenia's horticultural produce on the international market. To this end the support shall be provided for (i) agro-related laboratories; (ii) export promotion through the Union of Exporters of Armenia; and (iii) training of poor smallholder fruits and nuts producers not contracted by FA as well as private sector nurseries.

4.2. Component 2: Rural Infrastructure. This Component shall support investments in rural infrastructure in order to: (i) improve livelihoods and economic growth in disadvantaged rural communities; and (ii) support the achievement of the full economic potential of the beneficiary clusters identified under the support given to the fruits and nuts sector under the Programme. This shall comprise support to the construction or rehabilitation of public utilities located in disadvantaged mountain areas with high poverty incidence, including the construction of water supplies, natural gas supplies, and storm water drainages, as well as supporting the construction of rural roads and ancillary structures that complement and strengthen Programme investments.

4.3. Component 3: Programme Management. This component shall support Programme management as outlined in Section II below.

II. Implementation Arrangements

A. General

5. *Programme Steering Committee ("PSC")*

5.1 A Programme Steering Committee with a composition acceptable to the Fund shall be established. The PSC shall have the overall responsibility for management and implementation of the Programme and shall report to the Lead Programme Agency.

6. *Programme Analysis and Administration Unit ("PAAU")*

6.1. A Government Decree shall be issued to confirm that the current PAAU of the Farmer Access Market Programme ("FMAP"), partially financed by the Fund through a Programme Financing Agreement dated 8 January 2008, shall carry out the administrative, financial and operational responsibilities of the Programme. The PAAU shall enjoy administrative, financial and operational autonomy and shall be empowered to enter into contractual relations with third parties. The staff recruitment and final composition of the PAAU shall be subject to no objection by the Fund. The PAAU shall report to the Lead Programme Agency.

6.2. The main tasks of the PAAU shall be to carry out the monitoring and overall programming and budgeting of Programme activities, establishing the FA and oversee the implementation of infrastructure activities.

B. Component Management

7. *Fruit Armenia (FA)*

7.1. The Borrower, through the PAAU, shall establish FA as a Joint Stock Company under Armenian law. FA's Statutes shall be subject to no objection by the Fund and shall outline that, apart from commercial viability, its purpose is poverty reduction through economic development in rural Armenia. The FA shall draw a 3-5 year business plan, subject to no objection by the Fund, which shall include a divestment strategy regarding the public ownership of FA.

7.2. Ownership of all shares in FA shall initially be with the Borrower, but gradually transferred to strategic investors and farmers contracted by FA through the sale of shares in FA. A Shareholders' Agreement, subject to no objection by the Fund, shall define the shareholders' relations in FA.

7.3. The Borrower shall enter into a Subsidiary Financing Agreement with FA, which shall provide that the Borrower will enter into contracts with FA to provide financing to FA as follows: (i) USD 1.7 million in the form of equity; (ii) USD 1.5 million in the form of a grant; and (iii) USD 7 million in the form of a loan. Both the Subsidiary Financing Agreement and the above-mentioned contracts shall be subject to no objection by the Fund.

7.4. The Borrower shall enter into a Performance Contract with FA to define, among others: (i) the development and commercial objectives and targets of FA; (ii) compensation of Management of FA, as described in paragraph 7.6 below; and (iii) the modalities for subcontracting services provided by FA to the private sector. The contents of the Performance Contract shall be subject to no objection by the Fund.

7.5. The FA shall have a Board of Directors, comprising of a majority of representatives of the private business sector with interest in the successful development of FA, and Government representatives. Chairmanship of the Board of Directors shall rotate annually. Each appointment by the Borrower of a member of the Board of Directors shall be subject to no objection by the Fund.

7.6. The Board of Directors shall recruit on a competitive basis the Management of FA including a locally recruited Executive Director, an internationally recruited Deputy Executive Director, a Senior Technical Advisor, a Financial Manager, an Accountant, a Lawyer, a Value Chain Manager and a Business Development Advisor. The Borrower, in its capacity as shareholder in FA, shall ascertain that the terms of reference, qualifications as well as recruitment of the Management of FA receive no objection by the Fund.

7.7. The PAAU shall initially assist in the establishment of FA. This shall entail, among others, assistance in recruitment of staff, procurement, transfer of funds and financial management. Once fully established, FA shall function fully independently of PAAU and be governed solely by its Board of Directors and shareholders. The PAAU shall also provide support to: (i) agro-related laboratories; (ii) export promotion through the Union of Exporters of Armenia; and (iii) training of poor smallholder fruits and nuts producers not contracted by FA as well as private sector nurseries.

7.8. Implementation of Component 2 'Rural Infrastructure', shall be the responsibility of the PAAU. The main tasks of the PAAU shall include: (i) pre-qualification of rural infrastructure investments; (ii) screening and ranking of rural infrastructure investments; (iii) final selection of rural infrastructure investments; (iv) procurement of civil works; (v) contracting of persons or entities for the supervision of civil works; and (vi) providing of guidance to persons or entities that have been contracted for the supervision of civil works.

7.9. The PAAU shall continue to support and monitor the activities carried out by the Revolving Funds established under the previous IFAD projects (the North-West Agricultural Services Project, the Agricultural Services Project, the Rural Areas Economic Development Programme and the FMAP), as well as any other activity, as appropriate, provided for in the financing agreements between IFAD and the Borrower regarding said IFAD projects.

Schedule 2*Allocation Table*

1. *Allocation of Loan and Grant Proceeds.* The Table below sets forth the Categories of Eligible Expenditures to be financed by the Loan and the Grant and the allocation of the amounts of the Loan and the Grant to each Category and the percentages of expenditures for items to be financed in each Category:

Category	Loan Amount Allocated (SDR)	Grant Amount Allocated (SDR)	Percentage of financing under the Loan and Grant
I. Civil works:			
a) Contracted works for rural transportation infrastructure	730 000		75% net of taxes
b) Design and supervision for rural transportation infrastructure	65 000		100% net of taxes
II. Equipment, Goods and Vehicles	110 000		100% net of taxes
III. Training, Technical Assistance and specialist services	370 000		100% net of taxes
IV. Fruit Armenia financing	6 720 000	330 000	100% net of taxes exclusive of government contribution for land
V. Recurrent costs	755 000		50% net of taxes
VI. Unallocated	150 000		
TOTAL	8 900 000	330 000	

Schedule 3

Special Covenants

In accordance with Section 12.01(a)(xxiii) of the General Conditions, the Fund may suspend, in whole or in part, the right of the Borrower to request withdrawals from the Loan Account and the Grant Account if the Borrower has defaulted in the performance of the covenant set forth below, and the Fund has determined that such default has had, or is likely to have, a material adverse effect on the Programme:

1. IFAD loan and grant proceeds shall not be used to social security charges for Programme staff to the Social Security Fund. For all such charges, the Borrower shall use the financial assistance provided by OFID, as mentioned in paragraph B) of the Preamble to this Agreement. Income taxes shall be paid by the contracted staff and individual service providers directly and shall not be retained by the PAAU or other implementing agencies.

Key reference documents

IFAD reference documents

Administrative Procedures on Environmental Assessment

COSOP 2003

IFAD Strategic Framework 2007-2010

Programme design document (PDD) and key files

Private-Sector Development and Partnership Strategy

Logical framework

Narrative Summary	Verifiable Indicators	Means of Verification	Assumptions/Risks	
Goal				
Rural poverty in Armenia reduced.	<ul style="list-style-type: none"> • 10% reduction in the number of rural people living on < USD 4.30/day. • At least 20% of households involved in RACP activities increase household asset ownership. 	National Statistics (NSS Poverty Profiles). Household surveys (e.g., ILCS, ADHS, RIMS). Impact assessment studies.	<p>Macro-economic environment and related policies remain conducive to investment, private sector development and trade.</p> <p>No deterioration in existing markets for fruit and nuts.</p> <p>No distortions introduced in markets for land.</p> <p>Sustainable mechanism put in place for operation and maintenance of infrastructure.</p>	
Objective				
<p>Viable fruits and nuts sector with backward linkages to poor rural smallholders established.</p> <p>Fruit Armenia fully privatised.</p>	<ul style="list-style-type: none"> • At least 10% increase in exports of fruits and nuts by PY5. • At least 10% of commercially oriented farmers in the sector have established contractual arrangements by PY5. • At least 1500 full-time and seasonal jobs created by PY5. • A minimum of 1 500 additional rural poor smallholder farmers take up at least one of improved technologies by PY5. • At least 3 000 ha of land put under fruits/nut production. • A business plan detailing key milestones for privatisation developed by PY 3. • Fruit Armenia fully privatised by PY 8. 	<p>Government export statistics.</p> <p>Farmer interviews.</p> <p>Government agricultural statistics.</p> <p>Enterprise statistics, including farms.</p> <p>Government employment records.</p> <p>Household interviews.</p> <p>Business Plan.</p> <p>Fruit Armenia accounts.</p>		
Outcomes				
Human and financial assets of participating households sustainably improved.	<ul style="list-style-type: none"> • At least a fivefold increase in the value of fruit/nut orchard land. • A reduction of at least 50% in wood used for heating/cooking in villages where gasification introduced by PY5. • At least 10% reduction in work days lost. 	<p>Cadastral values/market studies.</p> <p>Government forestry/agricultural statistics.</p> <p>Household interviews.</p>		
Outputs				
1. Private sector based joint stock company set up.	<ol style="list-style-type: none"> 1.1. Fruit Armenia breaks even by PY4. 1.2. At least 7 nurseries procure stocks from Fruit Armenia by PY 5. 1.3. Fruit Armenia establishes contract farming arrangements with at least 450 poor smallholder farmers by PY5. 1.4. At least 300 ha of new orchard land put under production by PY3. 	<p>Fruit Armenia financial statements.</p> <p>Records from Fruit Armenia and nurseries.</p> <p>Fruit Armenia records.</p> <p>Government agricultural statistics and farmer interviews.</p>		
2. Internationally acceptable certification facilities established.	<ol style="list-style-type: none"> 2.1. 40% increase of fruit and nut production that meets international quality standards by PY 5. 2.2. At least two certification facilities financially sustainable by PY 5. 	Laboratory/facilities records.		
3. Rural infrastructure that facilitates commercial farming put in place.	<ol style="list-style-type: none"> 3.1. At least 15 villages connected to markets by feeder roads (40 km) by PY5. 3.2. At least 20% reduction in post-harvest losses after road construction. 3.3. Gasification of 95 villages (about 100 000 households) completed by PY 5. 3.4. Improved drinking water supply provided to at least 35 villages (33 000 households) by PY 5. 	<p>PAAU records (contracts).</p> <p>Farmer interviews.</p>		